

APPENDIX 8

Anticipated Local Government Settlement for 2025-26

1. Following the Chancellor's Budget on 30th October we have some insights into the potential shape of the Provisional Settlement for 2025-26 but have not yet seen the detail. The indications are that the detailed Provisional Settlement will not be announced until the week before Christmas, now anticipated to be Thursday 19th December.
2. In the Chancellor's Budget it was identified that there will be a real terms increase in core local government spending power of around 3.2% in 2025/26, including at least £1.3 billion of new grant funding, of which at least £600 million will be new grant funding to support social care (i.e. this element will go to upper tier and unitaries); £700m funding within the £1.3billion will targeted funding intended to be a first steps towards a deprivation based funding approach with additional funding targeted to the places that need it most. It is anticipated that a majority of this targeted funding will go to upper tier and unitary councils. It is likely that when the Spending Review for 2026-27 to 2027-28 or 2028-29 is announced that there will be a shift in the local government funding model towards needs equalization which is not likely to be favourable to Surrey councils.
3. Within the £3.4billion additional spending power, as stated above £1.3billion is represented by additional grant and £2.1billion by additional council tax. So, more of the additional resources for local government allowed for by the Core Spending Power is coming from council tax increases than from central government grant. The Office for Budget Responsibility has estimated that the additional increase in council tax income will equate overall nationally to about a 5% increase for the sector.
4. We await to see whether the new Government will continue with New Homes Bonus grant for one more year. It is anticipated that the Core Spending Guarantee Grant will continue but with a lower percentage guarantee.
5. The Shared Prosperity Fund will continue for a further year and be worth £900 million, in advance of wider funding reforms. There will be an £86 million increase to the Disabled Facilities Grant in 2025/26.
6. The Government will provide £233 million of additional spending in 2025/26 to prevent homelessness. This suggests the Homelessness Prevention Grant continuing for another year.
7. Additionally, local authorities are expected to receive around £1.1 billion of new funding in 2025/26 through the implementation of the Extended Producer Responsibility scheme to improve recycling outcomes from

January 2025. Exceptionally for 2025/26 only, the Treasury will guarantee that if local authorities do not receive Extended Producer Responsibility income in line with the central estimate there will be an in-year top up, with the detail on this to be set out through the Local Government Finance Settlement (LGFS) process. We do not yet know the split between upper and lower tiers for this funding in two tier areas. This is likely to improve the Council's Budget position for 2025-26.

8. One of the key tax raising measures announced by the Chancellor was raising the Employers National Insurance contribution rate from 13.8% to 15% and halving the threshold from £10k to £5k. By the end of the current parliament the Government estimates this will raise nationally an extra £25 billion in tax revenue of which £5 billion will impact on public sector employers. The Government has stated that public sector employers will have additional funding to offset and MHCLG has confirmed that additional funding has been set aside to offset the impact for Local Government. The underlying increase in our employee costs for the measure is estimated at approximately £413k per annum. We await the provisional funding settlement details to see if we can confirm that additional cost has been fully offset.
9. As announced by the Chancellor prior to the Budget, funding through the affordable homes programme will be increased by £500 million in 2025/26, the Government is consulting on a five-year social housing rent settlement of CPI + 1%, Right to Buy discounts will be reduced and councils will be able to keep 100% of receipts. This does mean it might be appropriate to consider the option of re-opening a Housing Revenue Account and moving Knowle Green Estates assets back on to the Council's Balance Sheet.
10. With respect to Business Rates the Chancellor announced:
 - 40% business rates relief for retail, hospitality and leisure businesses, up to a total relief of £110,000 per business, in 2025/26;
 - freezing the small business multiplier in 2025/26, with a full CPI increase to the standard multiplier; and
 - an intention to introduce new, permanently lower multipliers for retail, hospitality and leisure properties with a rateable value under £500,000, funded by a new higher multiplier on all properties with a rateable value of £500,000 and above, which includes the majority of large distribution warehouses including those used by large online retailers.